JUN 0 2 1988

United States General Accounting Office

GAO

UNCLASSIFIED

Report to the Secretary of Defense

March 1988

MANAGEMENT REVIEW

Follow-Up on the Management Review of the Defense Logistics Agency

GAO/NSIAD-88-107

ORIGINAL

GAO

United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-221701

March 28, 1988

The Honorable Frank C. Carlucci
The Secretary of Defense

Dear Mr. Secretary:

This report discusses the results of our follow-up review on GAO's April 7, 1986, report, Management Review: Progress and Challenges at the Defense Logistics Agency (GAO NSIAD-86-64). Our follow-up review was made to assess the status of actions taken in response to our prior report and to identify additional opportunities to strengthen the Defense Logistics Agency's management processes and overall effectiveness.

This report contains recommendations to you on pages 14 and 21. As you know, 31 U.S.C. 720 requires the head of a federal agency to submit a written statement of actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report. We would appreciate receiving copies of these statements.

We are sending copies of this report to the Chairmen, House and Senate Committees on Armed Services; the Director, Office of Management and Budget; the Secretaries of the Army, Navy, and Air Force; and the Director of the Defense Logistics Agency.

Sincerely yours,

Frank C. Conahan

Frank C. Conahan
Assistant Comptroller General

Executive Summary

Purpose

To provide logistical support to the U.S. military services and the defense agencies, the Defense Logistics Agency (DLA) manages about 2.5 million supply items and maintains inventories valued at about $11.5 billion. Managing these resources efficiently and effectively is a formidable task. GAO examined DLA management in its April 1986 report entitled Management Review: Progress and Challenges at the Defense Logistics Agency (GAO/NSIAD-86-64). In this report GAO examines DLA's progress in implementing the various recommendations GAO made in 1986 and also identifies several additional opportunities for improvement.

Background

GAO's 1986 report focused on the areas of planning, program controls, organization, and operations. GAO noted five areas where DLA's planning processes could be improved—strategic, mobilization, automated information resources, staff needs, and budget formulation. GAO's program management findings dealt with the areas of contract administration, inventory management, automatic data processing costs, and audit follow-up. GAO recommended, for example, that DLA improve controls over material in transit and automate contract information.

With respect to organizational issues, GAO highlighted the importance of establishing the appropriate organizational structure and controls to manage automated data processing (ADP) operations and the internal audit function. GAO also recommended a number of improvements in DLA's direction of operations in such areas as supply support for weapons systems and productivity programs.

Results in Brief

The Department of Defense (DOD) has completed or has underway actions in response to each of the recommendations in GAO's 1986 report. Actions have been completed on seven recommendations and are underway on the other nine. However, in some areas GAO found that additional management action would enhance the steps that have been taken. The areas in most need of additional attention are strategic and mobilization planning and management controls over activities, such as contract administration and inventory receipt and storage.

GAO's Analysis

Planning and Related Functions

DLA has taken a number of actions to address the planning problems GAO previously found, but some additional steps are needed. For example:

- Progress has been made toward integrating DLA's strategic, mid- and short-range plans. The goals, objectives, and specific actions contained in the mid- and short-range plans support the achievement of strategic goals and objectives. Progress in accomplishing specific tasks is monitored; however, the resources needed to accomplish them are not identified and linked to the budget process.
- DLA's mobilization plans are being revised to broaden their scope and base them on more complete requirements data. However, DLA and the military services disagree over the types of items that should be included in mobilization requirements. Consequently, little progress has been made toward finalizing these plans.

Management Controls Over Programs

GAO's follow-up work to assess DLA progress in addressing management control problems shows that improvements are underway in the areas of contract administration, inventory management, automatic data processing costs, and audit follow-up. However, further actions are needed. GAO found:

- Improved controls over payments to contractors have been established; however, they have not been effectively implemented. For example, field activity reports of potential overpayments to contractors, submitted during 1987, contained incomplete data.
- A goal has been established to measure DLA's effectiveness in reducing the growth of nonstandard parts in the DOD inventory. However, data needed to assess whether the goal is being achieved is not being provided to managers.
- An ADP capacity management program has been established. A significant challenge facing DLA management is its program to modernize the agency's management information systems—the Logistics Systems Modernization Program, which is estimated to cost $2.7 billion. However, DLA lacks actual cost data for its existing automated data processing operations. The data are essential to making the appropriate cost/benefit and other financial decisions related to DLA's modernization program.
- Procedures for verifying the completion of corrective actions to audit recommendations have been developed.

Organization

DLA has taken actions to achieve greater centralized control over information resources management activities. Management responsibilities for the Logistics Systems Modernization Program are well defined, but they are divided among various DLA managers. GAO is concerned that this organizational structure may cause program control difficulties and notes that DLA is closely monitoring the situation.

Direction of Operations

GAO found that initiatives to improve supply support for weapon systems, productivity programs, and work force management are underway. For example:

- The DOD Inspector General is reviewing DLA's plans and ongoing efforts to implement a new weapon system-oriented supply management concept. Specific issues being studied include the adequacy of DLA and military service implementation plans and efforts to carry out those plans. DOD is developing guidance to help ensure the timely and accurate information necessary for DLA and the services to implement the concept.
- DLA is developing new productivity improvement programs that stress both product and process quality. An example is a new program that rewards employees financially for cost savings resulting from improved productivity.

A number of initiatives are also underway to improve DLA's work force quality, such as expanded and improved training programs. For example, DLA's acquisition training backlog has been reduced by 50 percent since fiscal year 1985.

Recommendations

GAO is recommending that the Secretary of Defense ensure that actions are taken to

- identify in DLA's planning, programming, and budgeting process the resources needed to achieve mid- and short-range agency objectives;
- issue guidance that defines which items should be included in mobilization requirements data the services submit to DLA; and
- improve management controls over contract administration, inventory, and ADP operations.

Agency Comments

With one exception, which relates to the responsibilities of DLA's internal review group, DOD generally concurred with GAO's findings and recommendations (see app. I). DOD also cited numerous actions to address the issues discussed in GAO's report such as improvements to planning and information management resources activities.

Contents

Executive Summary		2
Chapter 1 Introduction		8
	Objective, Scope, and Methodology	8
Chapter 2 Planning and Related Functions		10
	Strategic Planning	10
	Mobilization Planning	10
	Automated Information Resources Planning	11
	Staff Needs Planning	12
	Budget Formulation	13
	Conclusions	13
	Recommendations	14
	Agency Comments and Our Evaluation	14
Chapter 3 Management Controls Over Programs		15
	Accounting Inaccuracies	15
	Financial and Other Management Controls Over Material	16
	Parts Control and Inactive Item Programs: More Progress Needed	17
	Controls Over ADP Costs and Measurement of Computer Performance	19
	Audit Follow-Up and Evaluation	19
	Conclusions	20
	Recommendations	21
	Agency Comments and Our Evaluation	21
Chapter 4 Organizational Structure		23
	Centralized Control Over Information Resources	23
	Internal Review Capability	25
	Conclusions	26
	Agency Comments and Our Evaluation	26
Chapter 5 Direction of Operations		27
	Weapon System Support	27
	Productivity Program	28
	Work Force Quality	29
	Conclusions	29
	Agency Comments	29

Appendix

Appendix I: Comments From the Assistant Secretary of Defense (Production and Logistics) 30

Abbreviations

ADP	Automated data processing
DCASR	Defense Contract Administration Services Region
DLA	Defense Logistics Agency
DOD	Department of Defense
GAO	General Accounting Office
IRM	Information Resources Management
LSMP	Logistics Systems Modernization Program
MILSCAP	Military Standard Contract Administration Procedures
OSD	Office of the Secretary of Defense
ULO	Unliquidated obligation

Chapter 1

Introduction

The primary mission of the Defense Logistics Agency (DLA) is to provide effective and economical logistical support to the U.S. military services and the defense agencies. DLA's activities include (1) procuring, stocking, and issuing material to support the military forces, (2) administering and making payments on certain defense contracts, and (3) providing other worldwide support services, including property reuse and disposal, cataloging supply items, and managing defense industrial property.

DLA has an annual operating budget of $1.8 billion. It manages about 2.5 million supply items, maintains inventories valued at about $11.5 billion, and annually processes about 29 million requisitions for materials valued at about $12.3 billion. It administers over 400,000 prime contracts, valued at about $255 billion, and makes payments of about $50 billion to defense contractors annually. DLA employs about 54,000 personnel (53,000 civilian and 1,000 military) at over 300 locations worldwide.

Objective, Scope, and Methodology

In our April 1986 report, Management Review: Progress and Challenges at the Defense Logistics Agency (GAO/NSIAD-86-64), we made 16 recommendations to the Secretary of Defense and the Director of DLA to improve DLA's management in the areas of planning, management controls, organizational structure, and operations. Our objective for this review was to provide a status report on the actions that have been taken to implement our prior recommendations. We did not make a detailed examination of each implementation plan or action. Our work focused on whether actions were underway that were aimed at addressing our recommendations.

Our review was conducted between October 1986 and September 1987, primarily at DLA headquarters, and in accordance with generally accepted government auditing standards. We also performed limited work at the Offices of the Assistant Secretary of Defense for Production and Logistics and the Assistant Secretary of Defense, Comptroller, in those areas where they were assigned primary responsibility for actions related to our recommendations.

Our methodology included interviewing cognizant officials and reviewing and analyzing pertinent studies, plans, audit reports, and statistical data related to the actions DLA and other Department of Defense (DOD) activities were taking in response to our recommendations. We did not attempt to evaluate DLA's internal control system in each of the areas we

reviewed; however, in those areas where problems were identified, we assessed whether internal control improvements were needed.

Planning and Related Functions

Our 1986 report addressed five of DLA's planning processes: (1) strategic, (2) mobilization, (3) automated information resources, (4) staff needs, and (5) budget planning. Overall, DLA has taken numerous actions in response to our recommendations to improve these planning areas. However, additional actions are needed to improve strategic and mobilization planning.

Strategic Planning

DLA's strategic planning process projects what operating capabilities DLA will need to support the military services and DOD agencies 25 years in the future. This process should integrate General Agency Objectives (long-range objectives), planning and specific objectives (mid-range objectives), and management objectives (short-range objectives), producing the Strategic Integrated Logistics Plan. According to DLA's planning regulation, the mid- and short-range funded and programmed projects should be directly linked to the longer range general direction in which DLA is headed.

Our 1986 report showed that the three levels of objectives were not integrated with each other. DLA is currently rewriting the strategic plan so that the long-range objectives determine the mid- and short-range objectives. However, we found that the mid- and short-range objectives are not linked with the manpower or funding resources needed to achieve the objectives. The document sets forth 76 mid-range and 398 short-range management objectives. Although progress toward achieving these objectives is monitored, the resources needed to achieve them are not identified in the planning document, and it is unclear how these resources are considered in the overall budgeting process. While some of these objectives can be achieved from resources provided by an activity's operating budget, others require substantial expenditures for such items as hardware and software development.

A DLA official in the Comptroller's office stated that cost information on these objectives would be helpful in developing budget estimates for overall agency operations. This official said that management objectives will be receiving increased attention in budget deliberations for fiscal year 1988.

Mobilization Planning

DLA needs mobilization plans to assist it in making the transition from peacetime to wartime operations. Our 1986 report questioned whether DLA could prepare accurate mobilization plans because the services were

not providing comprehensive mobilization requirements data. We recommended that the Secretary of Defense ensure that the services make the appropriate data available to DLA.

Our current work shows that DLA's mobilization plans are being revised to broaden their scope and base them on more complete requirements data. However, the services are still not providing the needed data. To obtain the data needed, in March 1987 DLA asked the services to provide, over a 3-year period, the data on their mobilization requirements for

- subsistence items, petroleum, oils, and lubricants, and spare parts on the Commander in Chief's list of critical items (to have been provided in 1987);
- clothing and textiles items, medical supplies, and spare parts for major weapon systems other than those on the critical-item list (to be provided in 1988); and
- construction supplies and all other spare parts (to be provided in 1989).

DLA and the services met three times between March and September 1987 to discuss this request. The services disagreed on what data should be provided, according to a DLA mobilization planning official. The Navy and the Marine Corps said that they would provide only their war reserve requirements. War reserve requirements exclude many initial issue items that will be needed during mobilization, such as duffel bags, construction supplies, or food other than field rations, according to a DLA planning official. The Army and the Air Force said they will work with DLA to provide the appropriate data. However, they have reservations about whether they can provide the detailed information DLA is requesting.

Automated Information Resources Planning

At the time of our 1986 report, DLA was developing a long-range plan for modernizing its automated data processing (ADP) systems. We found that DLA has made progress in planning for its systems modernization. We also found that, because of changes in long-range plans, logistical requirements, and technological advances, DLA is now developing a longer range plan, the Logistics Systems Modernization Program (LSMP). This plan extends the previous 5-year plan to 2010 with an estimated program cost of about $2.7 billion. On October 22, 1987, we discussed specific aspects of this program in our report ADP Modernization: Status of Proposed Enhancements to Defense Logistics Agency Systems (GAO/IMTEC-88-4FS).

In November 1986 the Office of the Secretary of Defense (OSD) council responsible for review and approval of automated information systems acquisitions identified several program concerns. The council believed that additional action was needed to (1) refine the planning focus, (2) validate cost and benefit data, and (3) ensure that the program's management structure will work. It recommended that DLA accelerate portions of the LSMP schedule to meet near-term operational needs for increased computer capacity and critical mission enhancements. The council also recommended that DLA separate its proposed short-term ADP enhancements from its long-term modernization program.

In response to the council's concerns, DLA clearly defined the program's policies, authorities, and responsibilities. It also identified and separated short- from long-term system enhancements. In addition, DLA is reviewing and updating the functional descriptions of major activity requirements connected with DLA's numerous missions. It continues to refine its planning process for future ADP systems requirements.

In March 1987 the Director of DLA informed the chairman of the DOD council that the LSMP implementation schedule could not be accelerated due to the magnitude and nature of the tasks involved. The Director stated that progress in separating short- from long- term enhancements was continuing.

In commenting on a draft of the report, DOD informed us that DLA has numerous efforts underway in response to the OSD council's concerns about the LSMP and has made progress in a number of areas. These efforts include segregating near-term system enhancements from the LSMP, accelerating the effort to define functional requirements, and refining the program's acquisition strategy.

Staff Needs Planning

Staff needs planning compares the characteristics of the ideal work force (e.g., skills, experience, and grade levels) with those of the actual work force and seeks to identify ways of reconciling any differences. Such a comparison depends on uniform methods of collecting personnel data.

In 1986 we reported that DLA's agencywide staff needs planning program was inadequate and recommended that DLA use uniform methods of data collection as part of its staff needs planning process. Our work shows that DLA has taken or has underway a number of initiatives in response to our recommendation. It has developed standard definitions

for personnel gains and losses, improved access to the personnel data bank, and established staffing goals.

In May 1986, using uniform data, DLA's Office of Civilian Personnel issued its first quarterly Staffing Statistics Report. The report summarizes data by field activity for such categories as personnel losses and gains and staffing efficiency broken down by job series and includes a narrative analysis of causes of significant changes in statistical categories. DLA also has improved its automated personnel system by providing access to the field activities and by adding 24 new data elements and new on-line programs that will provide data such as personnel turnover and internal and external recruitment.

Budget Formulation

DLA has separate budget formulation processes for its appropriated fund budget and its stock fund budget. The appropriated fund budget consists principally of the funds for personnel and other costs incident to day-to-day operations. The stock fund budget includes funds for supply inventories needed to respond to requests by DLA customers.

In 1986 we recommended that the Director of DLA improve the process and underlying assumptions used to prepare these two budgets by using more systematic and comprehensive data on DLA work force characteristics and by continuing initiatives to obtain better data from the services on weapon systems spare parts. DLA has taken several actions in response to our recommendations.

To improve the accuracy of budget decision-making data, DLA has automated its data on work force characteristics and made the data available to both field and headquarters analysts. The automated process was started in October 1986 at the depots and Defense Contract Administration Services Region (DCASR) offices and will be extended to DLA's supply centers next. This process will be further improved by adding an on-line appropriation accounting subsystem to the Automated Payroll, Cost, and Personnel System. According to DOD this action was accomplished in October 1987. This subsystem is intended to improve the quality of financial and work force characteristics data the field activities maintain and to improve the timeliness of reporting.

Conclusions

Overall, DLA has completed a number of actions and has others underway in response to our 1986 planning-related recommendations. However, the resources to accomplish the mid-and short-range management

objectives need to be identified in DLA's strategic planning documents and linked to the budgeting process. Otherwise, the potential exists that initiatives associated with high-priority objectives may not receive the resources necessary to accomplish them.

Also, the lack of agreement between DLA and the services over what items to include in mobilization requirements is delaying the completion of mobilization plans. Since it appears that DLA and the services will not be able to reach agreement in a timely manner, Secretary of Defense guidance is needed.

Recommendations

We recommend that the Secretary of Defense

- require the Director of DLA to identify the resources associated with accomplishing mid- and short-range objectives as part of the planning, programming, and budgeting process and
- issue guidance that defines which items should be included in mobilization requirements data the services submit to DLA.

Agency Comments and Our Evaluation

DOD concurred with our recommendation on strategic planning and noted that DLA is revising its Planning, Programming and Budgeting System Regulation (DLAR 3300.1) to ensure that appropriate tools are provided for resolving the problems we reported.

DOD concurred with the intent of our recommendation related to mobilization requirements data but wishes to proceed carefully because of potential funding implications. It believes that DLA and the services should be able to resolve their differences over what mobilization requirements data should be provided to DLA. DOD stated that if the current effort proves unproductive, it will convene a meeting by October 1988 with DLA and the services to resolve the remaining problems.

DOD did not disagree with our findings on information resource planning. However, it stated that DLA is making progress on implementing the OSD review council's guidance. DOD pointed to a number of additional initiatives that are underway. We revised our report to acknowledge those efforts.

Chapter 3

Management Controls Over Programs

In 1986 we identified five areas in need of improved management controls: (1) contract administration, (2) receipt of material from contractors, (3) inventory management, (4) ADP costs, and (5) audit follow-up. Improvements to management controls are underway in each area. However, more needs to be done, including adding new control measures and better implementing those that exist.

Accounting Inaccuracies

In 1986 we noted that for many years DLA's Defense Contract Administration Services Region Offices sometimes recorded accounting data for contracts inaccurately and made incorrect payments to contractors. These errors were primarily the result of manual data entry and the use of nonstandard contract data and forms. The Military Standard Contract Administration Procedures (MILSCAP), which DOD believes will solve these problems, have been in development for many years. DOD stated that these procedures had not been fully implemented because acquisition of a modern automated system that could effectively use these procedures had been slow. To improve accounting accuracy, we recommended that

- the Secretary of Defense pursue greater standardization of contract data by mandating full implementation of the MILSCAP (or an equivalent system) and find ways to achieve greater uniformity of contract forms and
- the Director, DLA, place greater emphasis on improving the quality of accounting data produced by DCASRs by directing them to review those transactions for which contractors appeared to have been overpaid[1] and testing the adequacy of controls over contractor payments.

Currently, the Office of the Secretary of Defense and DLA have efforts underway to improve the quality of accounting data for contracts. These efforts focus on fully implementing MILSCAP and changing the way DLA collects and processes contractual data.

The status of MILSCAP implementation was recently evaluated by the responsible OSD office and new objectives and milestones were established that set completion in fiscal year 1991. Also, DLA is redesigning its automated contract administration services system to reduce manual entry of accounting data and fully automate the contract payment process. The effort is scheduled for completion in December 1989. DLA also

[1]These transactions, which are classified as negative unliquidated obligations, occur when total funds disbursed exceed recorded obligations. They occur for such reasons as contractor overpayments, incorrectly recorded payments, and contract price reductions.

has modified its accounting procedures by instructing DCASRs to routinely review negative unliquidated obligation (ULO) balances for possible overpayments to contractors.

Since April 1986, DCASRs have been preparing quarterly reports on the results of their reviews. Although the reporting system represents an effective internal control, it has not been well implemented. Our review of the five quarterly summary reports for all the regions, prepared between April 1986 and June 1987, shows that individual DCASRs did not always submit reports. Consequently, we were not able to judge whether the reviews are helping to (1) reduce negative ULO balances and (2) identify duplicate payments.

For example, neither the Atlanta nor the St. Louis regions reported for the third quarter of fiscal year 1986. The Philadelphia region's fourth quarter 1986 report contained no data for negative ULO balances reviewed nor did the Los Angeles region's report for the second and third quarters of 1987. Even though the reports have been enhanced by including analyses of the reasons for ULOs, only four of the nine regions provided the analyses in the third quarter 1987 reports. Higher priority work was cited as the reason for incomplete reports. More emphasis is being placed on these reports, according to DLA officials.

Financial and Other Management Controls Over Material

In 1986 we pointed out several problem areas relating to DLA's ability to effectively and economically control materials received from contractors. The areas were (1) large balances of potentially invalid ULOs, (2) inadequate controls over material receipts, and (3) inaccurate inventory records. At the end of fiscal year 1984, DLA reported a balance of ULOs of $5.9 billion, recorded losses of about $23 million for materials paid for but with no record of receipt, and made $400 million in gross adjustments to its inventory records.

We recommended that the Director of DLA

- ensure that DLA's internal controls, including managerial accountability, are adequate to control in-transit materials;
- continue to emphasize the need to control ULO balances, identify the underlying problems that lead to the buildup of the large balances, and establish specific goals for acceptable ULO levels for the fuels commodity; and
- establish a goal for inventory accuracy as a management objective.

Since our 1986 report was issued, DLA has implemented several management initiatives to better control in-transit materials, reduce large ULO balances, and improve the accuracy of inventory records. These initiatives include new procedures for processing material receipts, reconciling overaged ULOs and improving the accuracy of its inventory records. We have completed[2] or have underway several detailed reviews that will, among other subjects, comment on the effectiveness of these initiatives and address

- inventory accuracy and causative research into inventory errors,
- confirmation that materials are received, and
- fast pay procedures for contractor materials.

Parts Control and Inactive Item Programs: More Progress Needed

DLA has two programs that aim at lowering supply costs by reducing the size of DLA's inventory: the DOD Parts Control Program and the Defense Inactive Item Program. The Parts Control Program's objective is to prevent unnecessary items from entering the supply system by ensuring that standard military parts are used, where possible, to construct new equipment. The Inactive Item Program's objective is to eliminate items from the supply inventory by periodically reviewing current needs. Reviews are made of all items that have been in the inventory for over 7 years and have had no demands in the most recent 2 years. In 1986 we reported that neither program was functioning as intended. Defense contractors were not implementing a large portion of DLA's recommendation to use standard military parts, and the services were not effectively evaluating inactive items to identify those that were unneeded. We recommended that

- the Director, DLA, establish a goal for the percentage of DLA's recommendations that the services are to accept as a gauge of program effectiveness and
- the Secretary of Defense direct DLA and the military services to work together to make timely and effective reviews of inactive items.

Parts Control Screening

DLA established a goal of 90-percent acceptance by the services of its recommendations to use standard military parts. However, DLA is unable to determine whether this goal is being met because the services do not

[2]Inventory Management: Defense Logistics Agency Inventory Accuracy Problems (GAO/NSIAD-88-39), Dec. 1987, and DOD Inventory Management: Revised Policies Needed (GAO/NSIAD-88-75), Jan. 1988.

always inform DLA whether they have accepted or rejected DLA's recommendations. In fiscal year 1986 DLA recommended that about 108,000 standard parts be used as substitutes for nonstandard parts that were proposed by defense contractors. These recommendations represented a potential cost savings of about $114 million. However, the services notified DLA that the recommended replacement was accepted or rejected for only about 30,000 (27 percent) of these parts.

Part of the reason for the low notification rate is that the applicable DOD instruction (DOD-I 4120.19) requires the services to provide feedback but does not say whether feedback should be provided on all recommendations. According to the DLA program manager, some service managers interpret the instruction as requiring feedback only when a recommendation is rejected while others respond to all recommendations. In June 1987 OSD informed DLA that the exception system is an acceptable method of reporting actions on Parts Control Program recommendations. Under this procedure, the services will notify DLA only when they reject recommendations. OSD is currently revising its instruction to formalize this agreement.

Defense Inactive Item Program

The Secretary's office has instructed DLA and the military services to place greater emphasis on the review and evaluation of inactive items. According to the Inactive Item Program manager, DLA and the services responded by making system improvements, revising the procedures manual, and increasing management visibility and surveillance over policy implementation. The Inactive Item Program software improvements were completed in July 1985. The program manager estimated that these improvements accomplished over 85 percent of the corrections that DLA wanted to make. The number of inactive items referred to the services by DLA for evaluation increased from 492,009 to 618,452 (26 percent) between fiscal years 1984 and 1986, but the percentage of items deleted only increased by about 1 percent (8 percent to 9 percent).

According to the program manager, the services have completed improvements to their screening processes. According to DOD, the Inactive Item Program manager at DLA plans to visit all military service inventory control points beginning in 1988 to verify that their screening processes have been corrected and to assist them with any remaining problems.

Controls Over ADP Costs and Measurement of Computer Performance

In 1986 we reported that DLA did not have adequate visibility and control over its ADP and telecommunications costs. Information on computer systems operating efficiencies was limited, and estimates of future computer capacity requirements were unreliable. DLA officials told us that these conditions occurred mainly because a computer capacity management program had not been fully implemented. We were concerned that without a capacity management program and adequate financial management information, DLA would not be able to conduct a cost-effective and efficient ADP modernization program. We recommended that the Director, DLA, complete the comprehensive computer capacity and evaluation program.

Improvement and Remaining Concerns

DLA implemented its capacity management program by the close of calendar year 1986; however, concerns about the adequacy of visibility and control over ADP costs remain. The capacity management program has made substantial information systems performance data available, which provides DLA with a better basis for assessing how effectively its current systems are being used and what additional capacity is needed.

DLA still does not have actual cost information for its automated information systems operations. It monitors operating costs for some of its larger information systems by tracking budget obligations. Actual costs would provide a better basis for determining how effectively current information resources are being used and for identifying requirements for additional capacity. For example, DLA is experiencing difficulty in responding to OSD's reviews of enhancements to its ADP computer capacity because it does not have adequate cost and benefit data to demonstrate that the enhancements are needed.

Audit Follow-Up and Evaluation

We previously reported that DLA was developing an automated data base to include information on audit findings, complaints, special investigations, and internal control findings. This system was to be used to help identify management problems. We found that DLA was not making selective on-site, follow-up audits to verify that corrective actions had been taken on reported deficiencies. We recommended that the Director, DLA, increase the coverage of the planned automated data system for compiling audit findings to include findings from other in-house review and evaluation groups and issue procedures to ensure that actions on audit recommendations are verified.

Since our report was issued, DLA has implemented its automated data base and assigned a staff member to work with the system. However, the system has limited management analysis and evaluation capability. The DLA manager responsible for the system characterized the data base as primarily a correspondence control system with only limited capability to analyze and evaluate audit data. DLA wants to replace the current system but, in the interim, has improved it by restructuring the input format to better categorize audits and inspections. The data base has not been expanded to include internal management reviews and studies because of their ad hoc nature.

Officials explained that the studies' scopes varied widely and that the studies were generated by headquarters managers. Further, these studies represented specific areas of interest to the cognizant managers and were viewed by them as management control techniques for their use. Consequently, the managers argued that including the studies in the data base was not appropriate.

In response to our 1986 recommendation, DLA did issue a regulation requiring physical on-site verification of completed actions on audit recommendations; however, the regulation lacked adequate detail as to how these verifications would be made or who would make them. According to officials responsible for the program, the procedures were not adequate to ensure independent verification of completed actions. The regulation covering audit follow-up and evaluation was revised to improve the procedures and reissued on January 5, 1988. DLA plans to implement the revised procedures by early 1988. We believe the revision provides adequate guidance as to how completed actions on audit recommendations are to be verified.

Conclusions

DLA has taken action to improve management controls; however, in several areas additional action is needed. Management controls can be improved in the parts control program, contractor payment reports, and the ADP cost system.

Regarding our original recommendation concerning DLA's audit follow-up system, DLA's concerns about including internal studies and inspections appear to be valid. We believe DLA should continue its efforts to improve the system but should concentrate on effectively tracking and analyzing audits and inspections by the DOD Inspector General and GAO before including internal studies and inspections in the data base.

Recommendations

We recommend that the Secretary of Defense

- ensure that DLA's regional offices make accurate and complete reports about possible overpayments to contractors,
- revise the existing DOD instruction to require that program offices provide information on the disposition of all DLA's recommendations for the use of standard military parts that are not accepted and establish management controls that ensure complete reporting, and
- develop a system that will allow DLA to identify the costs of its ADP operations on a system-by-system basis.

Agency Comments and Our Evaluation

DOD concurred with our findings and recommendations and cited a number of specific efforts that DLA has underway.

With respect to our recommendation on accounting inaccuracies, DOD stated that DLA has implemented two mechanized programs to detect overpayments to contractors. One program compares newly received invoices to the invoice history file to detect duplicate invoices, while the other program compares contractor payments to the payment history file to detect duplicate payments. DLA modified its quarterly report of negative balance reconciliations to include the reasons for credit amounts. Also, DLA has begun a project to redesign its system for making contractor payments to allow for up-front validation of transactions entering the system. We believe these actions represent improvements to DLA's management controls. However, DOD did not comment on the actions it will take to improve the completeness of the regional office quarterly reports. This area needs additional management actions.

DOD indicated that the Parts Control Program Instruction (DOD-I 4120.19) is being revised to clarify the program manager's feedback requirement on DLA parts recommendations. The revision will require the services to notify DLA only when recommended replacements for nonstandard parts are not accepted.

With regard to controls over ADP costs, DLA plans to expand its existing accounting system to accommodate the LSMP's cost-tracking requirements. This modification is expected to be completed by June 1988.

Our draft report contained a proposal that milestones be established for completing and implementing procedures to verify reported corrective actions to audit recommendations. DOD concurred with our proposal and

issued a revised regulation with a July 1988 milestone for implementation. DOD's actions satisfy the intent of our proposal and therefore we are not making a recommendation. Our draft report also stated that regulations requiring verification had not been issued; however, DOD provided additional information referencing guidance on these requirements. DOD also commented that the regulation has been revised to establish more detailed procedures for verifying that corrective actions on recommendations are complete. We revised our report to reflect this.

Chapter 4

Organizational Structure

In 1986 we addressed two areas in which we believed DLA could improve its organizational structure: information resource management and internal review activities. Actions have been taken in these areas; however, we are concerned about the management organization for DLA's Logistics Systems Modernization Program.

Centralized Control Over Information Resources

In 1986 we reported that for many years DLA has been trying to modernize its ADP resources without having the centralized organizational control needed to effectively manage this effort. We concluded that DLA could improve management control over its information resource assets by reorganizing its Office of Telecommunication and Information Systems, which manages its information resources, and by updating applicable DLA regulations to reflect current ADP management responsibilities. We also concluded that DLA needed to evaluate its ADP policy and regulations to clarify roles, responsibilities, and procedures for managing ADP resources.

DLA has taken several steps toward establishing centralized control and improving management of its ADP resources. DLA contracted for an evaluation of its Information Resources Management (IRM) program and the development of an agency IRM plan (both were completed in February 1986). As a result of the evaluation, DLA

- updated several regulations dealing with information resource management to more clearly define responsibilities for such areas as planning, control, and direction;
- established an executive management steering committee to address policy issues on information management;
- reorganized the Office of Telecommunication and Information Systems;
- established field activity contacts to coordinate the management of information resources at the headquarters and field levels; and
- established a headquarters IRM Policy and Plans branch to coordinate information resource matters with the LSMP office.

LSMP Organization

In July 1986 DLA established a program office to manage its LSMP. We made a limited review of this office's management controls, which raised concerns about whether the program manager can maintain adequate accountability and control of the program.

In November 1986 the DOD council responsible for reviewing and approving automated information system acquisitions suggested that

DLA strengthen management for the modernization program by assigning complete authority and responsibility for products, schedules, and resources to the program manager. In January 1987 DLA revised the regulation that sets forth responsibilities for the program within the agency. DLA believes that the revisions address the OSD review council's management control concerns.

We reviewed the revised regulation and have several concerns about whether the program manager has the authority and responsibility envisioned by the OSD council. Although the program manager's authority and responsibilities have been clearly defined, other top managers at DLA headquarters have been delegated extensive authority to make program decisions related to their functional areas and resources. The program manager has significant responsibility for project planning, but the control function is exercised principally by monitoring activities and reporting slippages in milestones or unresolved program disputes to senior managers.

The arrangements raise questions about whether the program manager can maintain adequate accountability and control over the program. For example, the January 1987 regulation delegated responsibility for planning, acquiring hardware and software, and controlling funding for major activities to the headquarters managers responsible for various DLA functions. Without strong control over these program activities, the program manager may not be able to exercise effective program control.

DLA's Director believes that the modernization program's organizational structure best suits DLA's management environment and that it will be successful if closely monitored by top management. A system of periodic reviews has been established to monitor and assess the program's progress.

Our review of the program office also raised questions as to whether the current organizational structure can provide adequate continuity of top management. The program manager and his deputy have been military personnel who are generally assigned for 3 years or less. Our past review of the Social Security Administration's[1] ADP modernization program showed that continuity of program leadership is one of several critical factors to successfully accomplishing a major ADP modernization effort. In commenting on a draft of this report, DOD informed us that the

[1]Social Security Administration: Stable Leadership and Better Management Needed To Improve Effectiveness (GAO/HRD-87-39), Mar. 1987.

LSMP program manager's position has been filled by a senior executive service member who is experienced in information systems program management.

Our past work indicates that adequate staffing in terms of numbers and skills is important to the success of these types of programs. At the time of our work, 15 personnel were authorized for the program office but only 11 personnel were assigned. DOD also stated that DLA expects to have all 15 personnel on-board in early 1988 and is currently assessing requirements for fiscal year 1988.

Internal Review Capability

In 1986 we raised concerns about whether DLA's internal audit coverage was sufficient. DLA had internal review groups at most field activities but had no DLA-wide internal review group reporting to the Director, although DOD regulations allow the Director to establish such a capability. We noted that should the Director decide to establish such a group at DLA headquarters, it should be independent from headquarters activities used to carry out DLA programs and should monitor the results of field activities operations.

DLA's internal review organization has not changed since our prior review. DLA has internal review groups located at 25 field activities, which report to their cognizant field commanders. The scope of their reviews does not include DLA headquarters organizations. However, if a field review group determines that problems are the result of actions of headquarters activities, for example, policy guidance needs to be revised, it recommends that the appropriate field-level office request that its corresponding organization headquarters take corrective action. This procedure is used because field-level internal review groups do not have the authority to make recommendations to headquarters-level activities. According to DLA headquarters internal review officials, the field internal review groups are responsible for following up on such recommendations.

DLA has a small internal review staff at headquarters within the Comptroller's office that provides guidance to the field staffs and coordinates requests by headquarters managers for reviews at field activities. This group does not perform any reviews of headquarters activities.

Conclusions

DLA has taken a number of actions to clarify and centralize control over its IRM activities. However, overall responsibility for managing its important and complex modernization program has been delegated among its functional managers, which raises questions about program management accountability. DLA's Director is aware of these concerns and believes the current structure is appropriate, and he will continue to closely monitor program progress. It is too early to tell whether the approach will be successful.

Agency Comments and Our Evaluation

DOD concurred with our findings on centralized control of information resources. With respect to LSMP, DOD reiterated that it believes the current organizational structure for the LSMP provides the program manager the authority and responsibility to control the program. DOD also stated that the program manager would be reviewing the program's current charter and will make recommendations to strengthen overall program control, if required. DOD also provided updated information on program office staffing changes, and we revised the report to reflect that information.

Chapter 5

Direction of Operations

Our 1986 report contained recommendations directed at improving DLA's operations in two areas: weapon system support and the productivity program. DLA has completed some actions that address our recommendations and has others underway.

Weapon System Support

DLA's Weapon System Support program is intended to provide the spare parts and other supplies necessary to maintain priority weapon systems, such as tanks and aircraft, in a combat-ready condition. These items range in sophistication from nuts and bolts to microcircuits. The program has grown substantially since 1981, from about 234,000 items used in 128 weapon systems in October 1981 to about 842,000 items used in 1,060 weapon systems by July 1987. Continued growth is anticipated as new weapon systems come into use.

Our 1986 report observed that, although DLA was able to satisfy requests for weapon system support items over 90 percent of the time, program management effectiveness was constrained because DLA was not receiving adequate data on item essentiality (the degree to which failure of a part affects a system's ability to perform as intended). DLA needs this information to determine the priority that requested items will receive and what quantities to stock. We also noted that in July 1985 the Secretary of Defense issued a concept paper requiring the military services and DLA to develop a wide range of enhanced weapon system supply support capabilities. Capabilities required by this document would ensure that DLA receives the data needed to optimize weapon system support. The military services and DLA are required to develop plans for implementing the new weapon system management concept. Implementation will be on a phased-in basis extending into the 21st century.

We recommended that the Secretary of Defense

- review the status and progress of weapon system support to ensure that its growth is justified and that it is accomplishing its intended purpose and
- ensure that the military services provide DLA with complete essentiality data.

OSD and DLA currently have several actions in progress to address these recommendations. For example:

- The Defense Inspector General, at the request of the Assistant Secretary of Defense for Production and Logistics, is reviewing the efforts of the

services and DLA to carry out the concept implementation plans. Inspector General officials estimated that their review would be completed in April 1988.

- OSD plans to issue a new directive (Determination of Requirements for Secondary Items After the Demand Development Period) in early 1988, which would provide guidance on determining the essentiality of items.
- OSD is revising DOD's basic inventory management directive (Inventory Management Policies) to bring it in line with the new weapon system management concept. It expected to reissue the revised directive in early 1988.

Productivity Program

In 1986 we observed that DLA had a comprehensive productivity improvement program that uses objective standards to measure DLA's operational performance. We also observed that DLA could improve its collection of performance data and better measure quality, timeliness, and efficiency of operational performance through improvements to its Labor and Production Reporting System. We recommended that the Director of DLA

- continue to emphasize both product and process quality by applying some of the same approaches used in measuring, evaluating, and improving operating efficiency and
- further improve DLA's productivity management program by ensuring that the data in the Labor and Production Effectiveness Reporting System is accurate and timely.

DLA is currently developing two new programs which will emphasize the use of standards that measure both product and process quality: Gains Sharing and Pay-For-Knowledge. Gains Sharing involves financial incentives to workers based on cost savings resulting from improved productivity. The Productivity Gain Sharing program is being tested at several DLA field activities. The Pay-For-Knowledge program, which is still in its early planning stage, would compensate employees for their ability to perform more than one job effectively.

Also, to improve the accuracy and timeliness of data reported in the Labor and Production Effectiveness Reporting System, DLA is focusing on ways to limit input data and automate putting data into the system. DLA officials believe that reducing the quantity of data reported and manual input will improve timeliness and accuracy. This effort is scheduled for completion in fiscal year 1988.

Work Force Quality

In 1986 we observed that DLA managers had identified key occupations for which employee recruiting, retention, and training were problems that needed to be addressed but did not regularly and systematically report personnel turnover and other data by occupations. We concluded that more systematic collection and analysis of personnel turnover and related data were necessary to appropriately set recruiting and retention goals.

Our 1986 report also noted that DLA was experiencing a training backlog because training slots and travel funds were unavailable and because scheduled participants were canceling training. DLA acknowledged these problems and mentioned several training actions that it had underway. We concluded that DLA should continue these initiatives.

Our current work shows that DLA has standardized the reporting of personnel turnover and related data. As a result, DLA should be able to collect and analyze personnel data systematically and to set more appropriate recruiting and retention goals. Further, during fiscal year 1986, DLA reduced its acquisition training backlog for DCASRs from about 5,300 to about 2,600. It accomplished this by

- raising the management level at which cancellations are approved, thus reducing the cancellation rate for service school training from about 25 percent to 2 percent in fiscal year 1985 and to 5.5 percent in fiscal year 1986;
- using private contractors to provide mandatory acquisition training to about 2,000 personnel in fiscal year 1985; and
- using the Army Logistics Management Center's satellite training program to train about 400 DLA personnel during fiscal years 1985 and 1986.

Conclusions

The actions that OSD and DLA have underway, when fully implemented, should address our prior recommendations. The Weapon System Support program will be implemented over a long period of time and will require periodic evaluation to ensure effective implementation. Likewise, building product and process quality into productivity programs and developing work force quality is a continuous process that must be monitored to ensure that these goals are reached.

Agency Comments

DOD concurred with our findings relating to the direction of their DLA operations.

Comments From the Assistant Secretary of Defense (Production and Logistics)

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON D C 20301-8000

PRODUCTION AND
LOGISTICS

27 JAN 1988

(L/SD)

Mr. Frank C. Conahan
Assistant Comptroller General
National Security and International
Affairs Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "MANAGEMENT REVIEW: Follow-up on the Management Review of the Defense Logistics Agency," dated November 6, 1987 (GAO Code 391582 OSD Case 7457).

The Department generally concurs in the report's findings and recommendations. There are several minor points of disagreement that principally involve the question of "how" corrective actions should be approached, but on the whole the Department agrees that such actions are necessary and in many cases are already underway. A detailed discussion of the DoD position is enclosed.

Sincerely,

Jack Katzen
Deputy Assistant Secretary of Defense
(Systems)

Enclosure

GAO DRAFT REPORT - DATED NOVEMBER 6, 1987
(GAO CODE 391582) OSD CASE 7457

"MANAGEMENT REVIEW: FOLLOW-UP ON THE MANAGEMENT REVIEW OF THE DEFENSE LOGISTICS AGENCY"

DEPARTMENT OF DEFENSE COMMENTS

* * * * *

FINDINGS

FINDING A: Background. The GAO discusses actions taken by the Defense Logistics Agency (DLA) in response to the prior GAO Report, "MANAGEMENT REVIEW: Progress and Challenges at the Defense Logistics Agency" dated April 7, 1986 (OSD Case 6882). The GAO noted that the prior report contained a number of recommendations to the Secretary of Defense and the Director, DLA, to improve the management of DLA operations. The areas addressed in the prior reports included how the DLA plans, organizes, directs and controls its operations. (p. 1, pp. 9-11/GAO Draft Report)

Now on pp. 2, 8-9

DoD RESPONSE: Concur.

FINDING B: Planning and Related Functions. The 1986 GAO report addressed five areas where the DLA planning processes could be improved--i.e, strategic, mobilization, automated information resources, staff needs, and budget formulation. Based on its followup review, the GAO concluded that overall, the DLA has completed a number of actions, and has others underway, in response to the 1986 report. For example, the GAO reported that the DLA has (1) improved its personnel data collection system, (2) developed a comprehensive plan for its logistics system modernization programs and (3) improved its budget data. The GAO concluded, however, that additional action is needed in some areas.

- Strategic Planning. According to the GAO, the DLA strategic planning process projects the operating capabilities that will be needed to support the Military Services and Defense Agencies 25 years in the future. The GAO observed that this process should integrate general agency objectives (long-range objectives), planning and specific objectives (mid-range objectives), and management objectives (short-range objectives), producing the Strategic Integrated Logistics Plan. According to the GAO, the mid-and short-range objectives should be directly linked with the

Enclosure

manpower and funding resources needed to achieve them. The GAO found, however, that although the DLA is currently rewriting the strategic plan so that the long-range objectives determine the mid-and short-range objectives, the mid-and short-range objectives are not linked with the manpower or funding resources needed to achieve the objectives. The GAO observed that the resources needed are not specified and it is unclear how the resources are considered in the overall budgeting process. The GAO concluded that, while some of the objectives can be achieved from resources provided by an activity operating budget, others require substantial expenditures for such things as hardware and software development.

- Mobilization Planning. The GAO observed that the DLA needs mobilization plans to assist in the transition from peacetime to wartime operations. The GAO found that the Services are not providing comprehensive mobilization requirements data. According to the GAO, the DLA has requested that the Services provide, over a 3-year period, the data on mobilization requirements for the following:

  - subsistence items; petroleum, oils, and lubricants; and spare parts on the Commander-in-Chief's list of critical items (to be provided in 1987);

  - clothing and textiles items; medical supplies, and spare parts for major weapon systems, other than those on the critical-item list (to be provided in 1988); and

  - construction supplies and all other spare parts (to be provided in 1989).

The GAO found, however, that after three meetings among the DLA and the Services, the Services still disagreed on what data should be provided. The GAO observed that the Navy and the Marine Corps will provide only their war reserve requirements, which exclude many items that will be needed during mobilization such as duffel bags, construction supplies, or food (other than field rations). The GAO further observed that the Army and the Air Force will provide the necessary data, however, both these Services have reservation about whether the level of detail information the DLA is requesting can be provided.

- Automated Information Resources Planning. According to the GAO, at the time of its 1986 report, the DLA was developing a long range plan for modernizing its automated data processing systems. The GAO currently found that, because of changes in long-range plans, logistical requirements, and technological advances, the DLA is now developing a

longer-range plan (the Logistics Systems Modernization Program), which extends the previous 5-year plan to 2010. The GAO noted that the program cost is estimated to be about $2.7 billion. (The GAO is currently examining specific aspects of this modernization program, which will be addressed in a separate report). The GAO found that, in November 1986, the DoD Council responsible for review and approval of automated information system acquisitions expressed concern that additional action was needed to (1) refine the planning focus, (2) validate cost and benefit data, and (3) ensure that the program management structure will work. The DoD Council recommended that the DLA accelerate portions of the program to meet near-term operational needs for increased computer capacity and critical mission enhancements. The GAO observed that the DLA has revised the modernization program regulation to implement the DoD Council's suggestions, but that the program implementation schedule is not being accelerated due to the magnitude and nature of the tasks involved.

- Staff Needs Planning. The GAO reported that the DLA has developed standard definitions for personnel gains and losses, improved access to the personnel data bank and established staffing goals. According to the GAO, in May 1986, the DLA Office of Civilian Personnel issued its first quarterly staffing Statistics Report, using uniform data, summarizing data by field activity for such categories as personnel losses and gains and staffing efficiency broken down by job series, and a narrative analysis of causes of significant changes in statistical categories. The GAO also reported that the DLA has improved its automated personnel system by providing access to the field activities and by adding 24 new data elements and new on-line programs that will provide such data as personnel turnover, and internal and external recruitment.

- Budget Formulation. The GAO found that the DLA has automated its data on work force characteristics and has made this data available to both field and headquarters analysts. According to the GAO, the automated process was started in October 1986, at the depots and Defense Contract Administration Services Regional Offices (DCASR) and will next be extended to the DLA Supply Centers. The GAO observed that this effort will be further enhanced in FY 1988, by adding an on-line appropriation accounting sub-system to the Automated Payroll, Cost, and Personnel System, (APCAPS) which will (1) improve the quality of financial and work force characteristics data the field activities maintain and (2) improve the timeliness of reporting. (pp. 1-2, pp. 11-12/GAO Draft Report)

Now on p. 13.

DoD RESPONSE:

o Strategic Planning - Concur. The Policy and Plans Directorate of the DLA is working closely with the DLA Comptroller's office in the revision of the Planning, Programming and Budgeting System, DLAR 3300.1, to ensure that appropriate tools are provided for the resolution of the problems noted in the subject finding. Estimated Completion Date: January 29, 1988.

Once these tools are available, the DLA will ensure that an effective linkage is established between mid- and short-range objectives and the manpower or funding resources needed to achieve the objectives. Estimated Completion Date: December 31, 1988.

o Mobilization Planning - Partially concur. At present, the Services do not submit mobilization requirements to the DLA, however, they do submit war reserve materiel requirements. Items that may be useful for mobilization do not necessarily qualify as war reserve items. The Department wishes to proceed carefully because there may be funding implications; however, it agrees that additional work is needed to clarify this area. As requested informally by the DLA, the Department is limiting its involvement at this time to monitoring the discussions between the Services and the DLA. See the response to Recommendation 2 for a fuller explanation of the Department's position.

o Automated Information Resources Planning - Partially concur. The DLA has made progress in ensuring that the additional Major Automated Information System Review Council guidance is being implemented. Progress has been accomplished in the following areas:

1. SEGREGATION OF LSMP FROM CRITICAL BASELINE ENHANCEMENTS. Functional managers and technical advisors from the Office of the Assistant Secretary of Defense (Production and Logistics) (OASD(P&L)) have been working with the DLA since November 1986, to segregate the near-term extended baseline from the LSMP. This process required the OASD(P&L) to consider the critical mission impact and urgency of need while the OASD(Program Analysis & Evaluation)(PA&E) reviews the economic justification and assists in validation of the cost benefit data. Sixteen critical baseline enhancements (CBEs) were submitted to the OASD(P&L) for approval. As of December 1, 1987, nine enhancements were approved. Seven enhancements are awaiting data or final review. The Engineering Drawing Management and Information Control System (EDMICS) enhancement was transferred from near-term to LSMP. Planned activities required to complete the Concept Phase of the LSMP established

limitations on the amount of acceleration feasible for the LSMP.

2. PROGRESS ON THE REVISED LSMP EFFORT. An accelerated effort is in progress to define functional requirements through a series of structured analyses being conducted by the DLA logistics processes and the automated systems that support those processes. The initial phase of that effort includes the use of a business information planning methodology as an aid in formulating functional requirements and a functional architecture for the LSMP. The functional requirements document for the Concept Phase will provide sufficient and appropriate detail to further design and implement technical strategies. The documentation will incorporate the results of the business analyses. Estimated Completion Date: March 1988.

The business area analysis process is structured to build the functional architecture based on an analysis of functional interfaces, functions/processes, and subject areas/entities. This analysis provides a vertical and horizontal view of logistics processes which could influence automated systems content structure or suggest consolidation of data bases of information for Agency use. Estimated completion Date: March 1988.

The refinement of the DLA target information and systems architecture is in process. This strategy will include data, applications, hardware, support systems, and communications which directly relate to functional requirements. The technical architecture strategy will be based on Open System Interconnect (OSI) standards. Currently, technical prototype research is being conducted in software engineering (Ada language), networking, data base machines, fiberoptics, and artificial intelligence. Estimated Completion Date: May 1988.

The transition strategy will encompass functional architecture changes as well as software and hardware plans. The critical baseline enhancements will establish the baseline for transitioning to the LSMP. Estimated Completion Date: May 1988.

The DLA has made substantial progress in refining the LSMP acquisition strategy. The overall objective of the DLA LSMP acquisition strategy is to manage risk by involving the private sector as much as possible while taking advantage of advanced technology and skills in the private sector. A support contractor has been acquired to consolidate the various initiatives in this area. Estimated Completion Date: May 1988.

3. COST AND BENEFIT DATA. The LSMP cost analysis will be revised based on functional requirements. Contract support is

being acquired to assist in the development of the document. Cost analysis guidelines have been drafted to ensure the requirements of the OASD(PA&E) are being addressed. Separate visibility of LSMP costing will be reflected by the DLA Comptroller in budget documents sent to the OSD and the Congress. Estimated Completion Date: May 1988.

4. PROGRAM MANAGEMENT. This issue is addressed in Finding D Organizational Structure (Centralized control Over Information Resources).

o Staff Needs Planning - Concur.

o Budget Formulation - Concur. As of October 1987, the on-line appropriation accounting subsystem to APCAPS has been fully implemented at all DLA activities.

FINDING C: Management Controls. The GAO concluded that the DLA has taken action to improve management controls, as addressed in the GAO 1986 report; however, in several areas progress has been slow and/or additional action is needed. The GAO found that management controls can be improved in the areas of parts control program regulations, contractor payment reports, ADP cost system and audit verification procedures.

- Accounting Inaccuracies. The GAO found that efforts are underway to improve the quality of accounting data for contracts. According to the GAO, these efforts focus on fully implementing the Military Standard Contract Administration Procedures (MILSCAP) and changing the way DLA collects and processes accounting data for contracts. The GAO observed that the status of MILSCAP implementation was recently evaluated by the OSD and new objectives and milestones were established that set completion in FY 1991. According to the GAO, the DLA is redesigning its automated contract administration services system to reduce manual entry of accounting data and to automate fully the contract payment process, which is scheduled for completion in September 1988. The GAO also found that the DLA has issued new accounting procedures instructing the DCASRs to routinely review negative unliquidated obligation balances for possible overpayments to contractors. The GAO observed that, since April 1986, the DCASRs have been preparing quarterly reports on the results of their reviews. The GAO found that, while the reporting system represents an effective internal control, the prepared reports are not always complete.

- Controls Over Material. The GAO reported that, since the 1986 report, the DLA has implemented several management

initiatives to better control in-transit material, reduce large unliquidated obligation balances, and improve inventory record accuracy. The GAO observed that these initiatives include new procedures for processing material receipts, reconciling overaged unliquidated obligations, and improving the accuracy of inventory records. The GAO noted that there are several detailed congressionally requested comprehensive reviews underway which, among other things, will comment on the effectiveness of these initiatives. The specific areas being reviewed are:

- inventory accuracy and causative research into inventory errors;
- confirmation that material is received; and
- fast pay procedures for contractor materials.

- Parts Control and Inactive Item Programs. The GAO reported that, although the DLA has a goal of 90 percent acceptance by the Services of its recommendations to use standard military parts, the DLA has been unable to determine whether this goal is being met since the Services do not always inform the DLA as to whether DLA recommendations have been accepted. The GAO found that, in FY 1986, the DLA recommended about 108,000 standard parts as substitutes for nonstandard parts that defense contractors had proposed. The GAO further found, however, that the Services notified the DLA on whether the recommended replacement was accepted or rejected for only about 30,000 (27 percent) of these recommendations. The GAO concluded that the low notification rate can be attributed to incomplete DoD guidance. According to the GAO, in August 1987, the Office of the Secretary of Defense (OSD), the DLA, and the Services agreed to use an exception system to report actions on Parts Control Program recommendations and, as a result, the Services will notify the DLA only when they reject recommendations. The GAO noted that the DoD instruction is being revised to reflect this change. The GAO also reported that the DLA and Services have made system improvements, revised the procedures manual, and increased management visibility and surveillance over policy implementation in the inactive item area. The GAO observed that the Inactive Item Program software improvements were completed in July 1985. As a result, about 85 percent of the needed corrections were made. According to the GAO, the number of inactive items referred to the Services by the DLA for evaluation increased from 492,000 to 618,000 (26 percent) between FY 1984 and FY 1986; however, the percentage of items deleted only increased by about 1 percent (8 percent

to 9 percent). The GAO observed found that the Army, Air Force, and Marine Corps have all completed improvements to their screening processes, while the Navy is still revising its system.

- ADP Costs and computer Performance. The GAO observed that the DLA has implemented a capacity management program, which has made a substantial amount of information system performance data available. According to the GAO, the system provides DLA with a better basis for assessing how effectively current systems are being used and what additional capacity is needed; however, the DLA does not have actual cost information for its automated information systems operations. The GAO found that operating costs for some of the larger DLA information systems are monitored by tracking budget obligations. The GAO noted, however, that these figures do not represent actual costs.

- Audit Follow-up and Evaluation. The GAO found that procedures for verifying the completion of corrective actions in response to agreed-to audit recommendations have not been instituted. The GAO acknowledged that the DLA has implemented an automated data base, which is intended to include information on audit findings, complaints, special investigations and internal control findings. The GAO observed, however, that the system has limited management analysis and evaluation capability. The GAO found that the data base is primarily a correspondence control system with only limited capability to analyze and evaluate audit data. According to the GAO, the current system will be replaced but, in the interim, the system input format has been restructured so audits and inspections can be better categorized. (pp. 3-4, pp. 19-30/GAO Draft Report)

Now on pp. 3, 19-22.

DoD RESPONSE:

o Accounting Inaccuracies - Concur.

o Controls Over Material - Concur.

o Parts Control and Inactive Item Programs. - Concur. However, the Inactive Item Program Manager at the DLA did not visit the Military Service inventory control points during 1987, to verify that their screening processes have been corrected and to assist them with any remaining problems. The visits will be conducted during calendar year 1988, starting in February 1988.

o ADP Costs and Computer Performance - Concur.

o Audit Followup and Evaluation - Concur with the intent of the finding. The initial GAO report was correct in saying that verification procedures had not been instituted by the DLA as of 1985. Preceding the followup review, however, the DLA had taken actions to establish verification policy and related procedures in the verification area. (In view of Department guidelines and in-house resources, verification of actions is performed on a selective random sample basis). To implement this policy, a change was made in January 1987 to the Internal Review Audit Manual, DLAM 7000.7. This change established procedures for the selection of items, criteria for closure, and audit verification procedures. In addition, the DLA has revised its regulation, "Followup on Audit, Inspection, Hotline, and Internal Review Reports," DLAR 7600.11, to further describe the verification process. The regulation will be published in January 1988, with implementation scheduled for July 1988.

The Department is in agreement over the statement that DLA is currently working on replacing the existing data base, and that in the interim, the current data base has been and will continually be restructured to more fully accommodate the GAO concerns. An ongoing action to enhance the versatility of the existing data base will a) allow analysts to retrieve records by more specific areas of functional responsibility, b) reflect more detailed monetary savings by dollars or workyears, and c) track activities visited, contacted or affected by corrective actions. Although the present system performs these functions to a degree, the improvement will increase the DLA ability to analyze and evaluate audit data.

FINDING D: Organizational Structure. The GAO found that the DLA has taken actions on the organizational issues in the Information Resource Management (IRM) and internal review areas, as addressed in the 1986 GAO report. The GAO concluded, however, that additional improvements are needed.

- Centralized Control Over Information Resources. The GAO reported that the DLA has taken action to establish centralized control over its ADP resources. The GAO noted that the DLA has contracted for an evaluation of its IRM Program and the development of an agency IRM Program and an IRM Plan, both of which were completed in February 1986. According to the GAO, the DLA took several actions in response to the evaluation recommendations and the plan. The GAO reported that the DLA has also updated several regulations dealing with information resources management to more clearly define responsibilities for planning, control, and direction, and has established an executive management steering committee to address policy issues on

information management. The GAO found that the Office of Telecommunication and Information Systems has been reorganized, field activity contacts have been established to coordinate the management of information resources at the headquarters and field level, and a headquarters IRM Policy and Plans Office has been established to coordinate information resource matters with the Logistics Systems Modernization Program (LSMP) Office. According to the GAO, the DLA also established a program office to manage its LSMP. The GAO found, however, that while the program manager authority and responsibility relationships have been clearly defined, other top managers at DLA Headquarters have been delegated extensive authority to make program decisions related to their functional areas and resources for the program. The GAO observed that, while the program office has significant responsibility for project planning, its control function is exercised principally by monitoring activities and reporting slippages in milestones or unresolved program disputes to senior managers. The GAO concluded that, as a result, the program manager may not be able to maintain adequate accountability and control over the program. The GAO also expressed concern that the current organization structure may not provide adequate continuity of top management.

- Internal Review Capability. The GAO reported that the DLA internal audit capability is unchanged from the 1986 report (i.e., internal review groups at most field activities but no DLA-wide internal review group reporting to the Director). The GAO observed that internal review groups report to field commanders and only review operations at their home activities. The GAO noted that the scope of the reviews does not include DLA headquarters organization, which provides policy and guidance to field activities and monitors field operations. The GAO also observed that, while the DLA does have a small internal review staff at headquarters (within the Comptroller's Office), which provides guidance to the field staffs and coordinates requests by headquarters' managers for reviews at field activities, it does not perform any reviews of headquarters activities. (pp. 4-5, pp. 31-37/GAO Draft Report)

See comment 1.

DoD RESPONSE:

o Centralized Control Over Information Resources - Concur. All actions have been taken by the Office of Telecommunications and

Information Systems concerning the evaluation and development of the IRM Program and IRM Plan. The DLA has strengthened the program manager's role in the LSMP in the following manner:

PROGRAM MANAGEMENT. The Program Manager (PM) is structured to respond directly to the Director, DLA, as a Principal Staff Element (PSE) and has ultimate approval authority and responsibility for all products prepared by the matrix organization. The PM's Charter and the LSMP regulation clearly delineate the PM's responsibilities and establish the authority for controlling and implementing DLA's modernization program. The products are assigned by the PM based on mission responsibilities within the matrix structure identified in DLA Regulation 4730.8, DLA Logistics Systems Modernization Program (DLSMP). This regulation established policy, responsibilities, and management relationships relevant to the LSMP. In order to control, direct, and coordinate all LSMP efforts, the PM acquired a Program Management Support System (PMSS) in September 1986. This PMSS provides the tools necessary for logically aligning work plans, scheduling final deliverables, and constructing an overall program execution plan that considers products and resources. Personnel resources within the matrix are the responsibility of designated PSEs; however, the Director, DLA, has established LSMP as a priority effort with PSE Heads accountable for plans to be executed in the LSMP.

The Program Management Office (PMO) will ensure program momentum, central managerial control, and integration of all activities being performed by the matrix organization. There are 11 employees in the PMO and current progress on recruitment actions indicate that the first year authorization of 15 employees will be on board by January 1988. The DLA is evaluating total requirements for FY 88. The responsibilities of the PMO are supplemented by program management support contractor personnel obtained with the PMSS. These employees have expertise in costing, configuration management, quality assurance, and project planning. A systems integrator is also being acquired to assist the PMO in Technical and Functional Planning and integration. Contracted efforts are also in process to provide assistance to the PM in special areas of concern.

The PM is establishing functions and recruiting qualified personnel to support cost analyses, system integration, and quality control. An operations research analyst and cost analyst will be hired to support the PMO along with support from the Operations Research Office and contractor cost analyst personnel. The systems integration acquisition is being accomplished by PMO computer specialists with assistance from the matrix organization and contracted support. Quality control

will be a function of the integration contract and PMO computer specialists.

Stability in the LSMP top management is now assured by the establishment of an SES position as PM. The position was filled as of 15 November 1987 with an experienced information systems program manager. The new PM is in the process of reviewing the present Charter and will make recommendations to strengthen overall program control, if required.

o Internal Review Capability - Concur. A brief review of the events that have produced the situation described by the GAO may lead to a better appreciation of the DLA internal review operations

A number of years ago the DLA had its own Auditor General, with resident auditors at major field activities reporting to the Auditor General. In the mid-1970's, this audit resource was transferred to the Defense Audit Services, then subsequently to the DoD IG. One result of this organizational change was that audit coverage dropped down from previous levels. The DLA expressed its concern to the DoD IG, and it was mutually agreed that the DLA could establish its own internal review function without fear that the IG would subsequently lay claim to the resources devoted to the audit effort. It was further understood that should the Director, DLA desire an audit of the DLA headquarters, the audit would be performed by the IG, DoD. This understanding ensured that no principles or tenets of auditor independence are violated.

FINDING E: Direction of Operations. The GAO 1986 report expressed GAO concerns about supply support for weapon systems, productivity programs and workforce management. The GAO reported that the actions underway should, when fully implemented, achieve the improvements recommended by the GAO.

- Weapon System Support. The GAO reported that the Defense Inspector General, at the request of the Assistant Secretary of Defense for Production and Logistics, is reviewing Service and DLA efforts to carry out their concept plans. In addition, the OSD plans to issue a new directive, in November 1987, ("Determination of Requirements for Secondary Items After the Demand Development Period"), which will provide guidance on determining the essentiality of items. The GAO further reported that the OSD is also revising the DoD basic inventory management directive ("Inventory Management Policies"), to bring it in line with the weapon system management concept.

- Productivity Program. The GAO observed that the DLA is developing two new programs--Gain Sharing and Pay-For-Knowledge--which will emphasize the use of standards to measure both product and process quality. The Pay-for-Knowledge Program, which is being tested at several DLA field activities, involves basing employees compensation on the ability to perform more than one job effectively. The GAO also observed that, in order to improve the accuracy and timeliness of data reported in the Labor and Production Effectiveness Reporting System, the DLA is focusing on ways to eliminate unneeded data and automating the input of data into the system by reducing the quantity of data reported and manually inputted.

- Workforce Quality. The GAO found that the DLA has standardized reporting personnel turnover and related data. The GAO concluded that, as a result, the DLA should be able to collect and analyze personnel data systematically, so it can set more appropriate recruiting and retention goals. The GAO reported that, during FY 1986, the DLA was able to reduce its acquisition training backlog by half--from about 6,600 to about 3,200. According to the GAO, this was accomplished by:

  -- raising the management level at which cancellations are approved, thus reducing the cancellation rate for service school training;

  -- using private contractors to provide mandatory acquisition training; and

  -- using the Army Logistics Management Center satellite training program. (pp. 5-6; pp. 38-43/GAO Draft Report)

Now on pp. 4, 29

DoD RESPONSE:

o Weapon System Support - Concur.

o Productivity Program - Concur.

o Workforce Quality - Concur.

RECOMMENDATIONS

RECOMMENDATION 1: The GAO recommended that the Secretary of Defense require the Director of DLA to identify the resources

Now on pp. 4, 14.

associated with accomplishing its mid- and short- range objectives as part of the planning, programming, and budgeting process. (p. 6, p. 18/GAO Draft Report)

DoD RESPONSE: Concur. The DLA has revised its Planning, Programming and Budgeting System (PPBS) regulation, DLAR 3300.1, which incorporates the Department's guidance on the PPBS process. The regulation has been given a new publication number, DLAR 7100.2, and is in the final edit stage prior to printing. It will ensure that the DLA mid- and short-range objectives are included in the PPBS. The estimated completion date is January 1988.

Now on pp. 4, 14.

RECOMMENDATION 2: The GAO recommended that the Secretary of Defense issue guidance defining which items should be included in mobilization requirements data the services submit to DLA. (p. 6, p. 18/GAO Draft Report)

DoD RESPONSE: Partially concur. The Department agrees with the intent of the recommendation, however, there are more effective ways of achieving this objective. The Services currently provide the DLA with requirements data for DLA-managed items that have been designated by the Services as war reserve items. The DoD position is generally that an item should be included in the war reserve program if it has a significant mobilization requirement that warrants consideration by the DLA in its mobilization planning process. The DLA and the Services are continuing their efforts in this area and should be able to resolve the problems cited by the GAO. If these efforts are not productive, the OASD(P&L) will convene a meeting by October 1988, with the Services and the DLA to resolve the remaining issues.

Now on pp. 4, 21.

RECOMMENDATION 3: The GAO recommended that the Secretary of Defense direct that action be taken to ensure accurate and complete reporting by DLA regional offices about possible overpayments to contractors. (p. 6, p. 30/GAO Draft Report)

DoD RESPONSE: Concur. The DLA has implemented two mechanized programs to assist in the detection of possible overpayments to contractors. One program validates newly received invoices against an invoice history file to detect potential duplicate invoices entering the system. The other program compares payments to a payment history file to detect potential duplicate payments. Both programs are being utilized by each Defense Contract Administration Services Region (DCASR) in its daily operations. In addition, the DLA established a quarterly report on the number and dollar value of credit unliquidated obligations on contracts administered and paid by the DCASRs. This report was modified for the reporting quarter ending

October 31, 1987, to include the major reasons for the credit amounts. This provides visibility to enable corrective actions to be taken.

The DLA also has a project underway to redesign the payment system utilized by the DCASRs into an on-line, interactive data base that includes the up-front validation of transactions entering the system. This project is in the design and programming stage and is projected to be operational at the first DCASR by mid-1989, and at all DCASRs by the end of 1989.

RECOMMENDATION 4: The GAO recommended that the Secretary of Defense direct that action be taken to revise the existing Defense instruction to require that program offices provide information on the deposition of all DLA recommendations for the use of standard military parts which are not accepted and ensure that management controls exist to ensure complete reporting. (p. 6, p. 30/GAO Draft Report)

Now on pp. 4, 21-22.

DoD RESPONSE: Concur. Action is underway to revise, by November 1988, DoD Instruction 4120.19, "DoD Parts Control Program" to clarify the program manager's feedback requirement on the DLA Military Parts Control Advisory Groups (MPCAG) non-standard part recommendations. The revision will reflect the agreed method of using the exception system and the Services will notify the MPCAGs only when they override the MPCAG recommendations.

RECOMMENDATION 5: The GAO recommended that the Secretary of Defense direct that action be taken to develop a system, which will allow the DLA to identify costs associated with its ADP operations on a system-by-system basis. (p. 6, p. 30/GAO Draft Report)

Now on pp. 4, 21-22.

DoD RESPONSE: Concur. Currently, the DLA has a system for capturing system-specific operational costs. The basic cost code structure is contained in the DLA's Accounting and Finance Manual, DLAM 7000.1 Within this accounting system, Automated Information System costs are accumulated on a memorandum account basis. The ability to account for the full system costs will be especially important as the DLA moves toward the modernization of its systems. As now envisioned, the existing accounting system will be expanded, by June 1988, to accommodate the cost tracking requirements of the Logistic System Modernization Program. The modified system will provide the support necessary to meet the needs of the Department's oversight elements and serve as the basis for the development of cost and benefits analysis. The Department will continually monitor progress to ensure that these requirements are incorporated into the revised accounting system.

See comment 2.

RECOMMENDATION 6: The GAO recommended that the Secretary of Defense direct the DLA to take action to establish milestones for completing and implementing procedures to verify reported corrective actions to audit recommendations, (p. 6, p. 30/GAO Draft Report)

DoD RESPONSE: Concur. A revision to DLAR 7600.11, "Followup on Audit, Inspection, Hotline, and Internal Review Reports," which will establish more detailed procedures for verification of corrective actions, is complete. Implementation is scheduled for July 1988.

See comment 1.

RECOMMENDATION 7: The GAO recommended that the Secretary of Defense direct the Director, DLA, to expand the headquarter internal review group responsibilities to include reviews of headquarters organizations and to ensure the independence of the DLA headquarters internal review group. (p. 6, p. 37/GAO Draft Report)

DoD RESPONSE: Nonconcur. The Department's position is that adequate independent oversight of the DLA headquarters organizations is already being provided through audit and inspection activities of the Office of the Inspector General, DoD. The last comprehensive inspection of the DLA headquarters was completed in FY 1986. The Director, DLA is given the opportunity, on an annual basis, to request additional audit and inspection coverage of DLA activities.

The following are GAO's comments on DOD's letter dated January 28, 1988.

GAO Comments

1. After considering DOD's comment on DLA's internal review capability, we have deleted our proposal, because we believe that such an action could result in a duplication of audit effort.

2. DOD concurred with our proposal and issued a regulation with a July 1988 milestone for implementation. DOD's actions satisfy the intent of our proposal; therefore, we are not making a recommendation.

Requests for copies of GAO reports should be sent to:

U.S. General Accounting Office
Post Office Box 6015
Gaithersburg, Maryland 20877

Telephone 202-275-6241

The first five copies of each report are free. Additional copies are $2.00 each.

There is a 25% discount on orders for 100 or more copies mailed to a single address.

Orders must be prepaid by cash or by check or money order made out to the Superintendent of Documents.